

# **Virginia's Regulatory Structure for Investor Owned Utilities**

**September 2011**

# Virginia's Electric Regulatory Framework

Re-Regulation Act passed in 2007 (SB1416, HB3068).

- Legislature concerned about drastic rate increases in nearby deregulated states (MD, DE, NJ).
- Virginia 2<sup>nd</sup> largest importer of electricity from out-of-state.
- Focus on
  - In-State Infrastructure Build
  - Demand-Side Management (Energy Efficiency and Peak-Shaving)
  - Integrated Resource Planning

# Virginia's Electric Regulatory Framework

Act returns Virginia to modified cost-of-service regulation, with broad SCC powers.

- Regular biennial reviews of utility rates, returns, costs.
- Integrated Resources Planning by utilities.
  - Empirical & disciplined process to find lowest reasonable cost options for meeting load growth.
- Not one penny can be added to utility customer bills without SCC approval.

# Generation Construction and Supply-Side Resources

- All major generating units require SCC approval (Certificate of Public Convenience and Necessity – CPCN).
- Requirement applies both to utilities and independent generators.
- SCC must consider effect of the generating facility, including associated transmission lines, on environment.
- Regardless of the type of supply-side resource, the SCC must determine costs to be reasonable and prudent in order to approve the project for cost recovery.

# Other Considerations for Approval of Electric Utility Facilities

- Economic Development (VA Code § 56-46.1)
  - In approving construction of electric utility facilities, the SCC shall consider the effect of the proposed facility on economic development, including economic and job creation objectives in the Commonwealth Energy Policy set forth in §§ 67-101 and 67-102 and shall consider any improvements in service reliability that result from the facility.
- Renewable Energy Resources and Rate Impacts (VA Code § 56-585.1.D)
  - In determining the reasonableness and prudence of a utility providing energy and capacity to its customers from renewable energy resources, the SCC shall consider the extent to which such renewable resources...further the objectives of the Commonwealth Energy Policy and shall also consider whether the cost of such resources is likely to result in unreasonable increases in rates paid by consumers.

# Utility Cost Recovery for Generation

- Generation facility construction costs may be recovered through “riders” - rate adjustment clauses (Section 56-585.1.A.6 of Re-Regulation Act).
- Riders allow for recovery of work in progress; Rates rise gradually as work progresses, avoiding rate shock phenomenon.
- As incentive, Act provides enhanced returns on many generation investments.
- Allowed returns on utility renewable energy investments enhanced by 200 basis points.
- “Riders” require annual update and true-up.



# Renewable Resources

- Re-Regulation Act also establishes a voluntary renewable portfolio standard (RPS) for Virginia utilities.
- RPS sets the following targets, measured against base year (2007 sales):
  - 4 percent by 2010
  - 7 percent by 2016
  - 12 percent by 2022
  - 15 percent by 2025
- Participants meeting the target shall receive 50 basis point enhancement to general rate of return.

# Energy to Serve Virginia Customers

- **Three Mechanisms for Meeting Energy Demand in Virginia**
  - Utility Self-Build and Operate
    - Provides long term value and price stability for customers
  - Long-Term Power Purchase Agreements (PPAs)
    - Imputed debt on utility balance sheet
    - Raises cost of capital
    - Reasonableness and prudence of PPA costs will be closely scrutinized by SCC
  - Market Purchases
- **Utility mandate is to seek the optimal reasonable cost solution for customers**



# Energy Efficiency and Peak-Shaving Programs

- Re-Regulation Act allows utilities to propose energy efficiency and peak-shaving programs, also called “demand-side management” (DSM) programs.
  - Programs implemented only after SCC approval.
  - Company must demonstrate that proposed programs meet industry-accepted cost-benefit measures.
- DSM Program costs recovered annually through DSM rider (Section 56-585.1.A.5 of Re-Regulation Act)
  - Recovery of projected and actual costs to design, implement, and operate energy efficiency programs, including a margin on O&M.
  - Large industrials (>10 MW) automatically exempted
  - Opt-out provision for large general service customers (>500 KW)

# Integrated Resource Plan (IRP)

- The IRP is a document that provides a forecast of the Company's load obligations and a plan to meet those obligations by supply side and demand side resources over the ensuing 15 years to promote reasonable prices, reliable service, energy independence, and environmental responsibility. (VA Code § 56-597)
- The IRP represents a snapshot in time.
- Plans subject to change based on future legislative, regulatory, and/or market drivers.
- Updated annually, filed in alternating years with VA SCC and NCUC, September 1<sup>st</sup>.
- In Virginia, the SCC makes determination on reasonableness and whether plan is in the public interest.

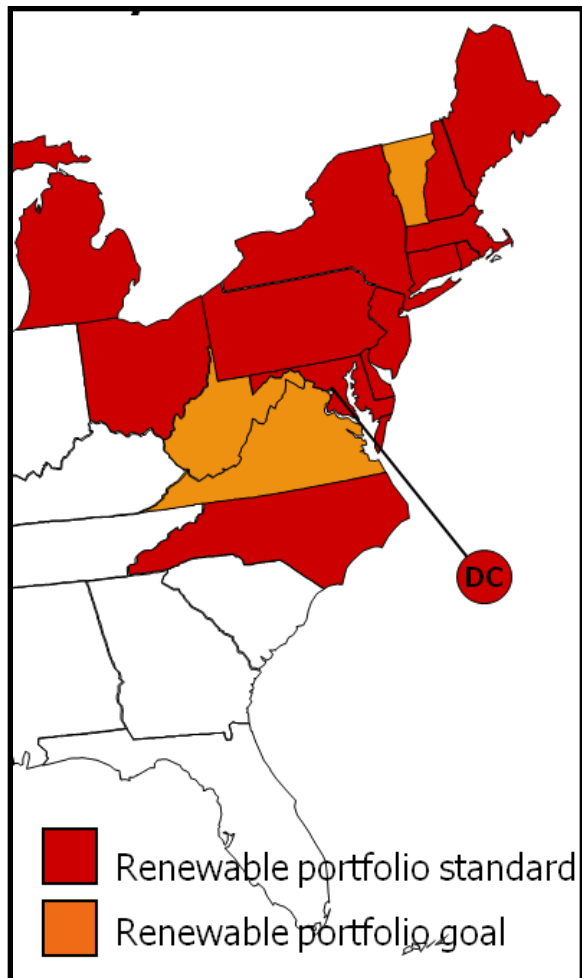


# Integrated Resource Planning Process

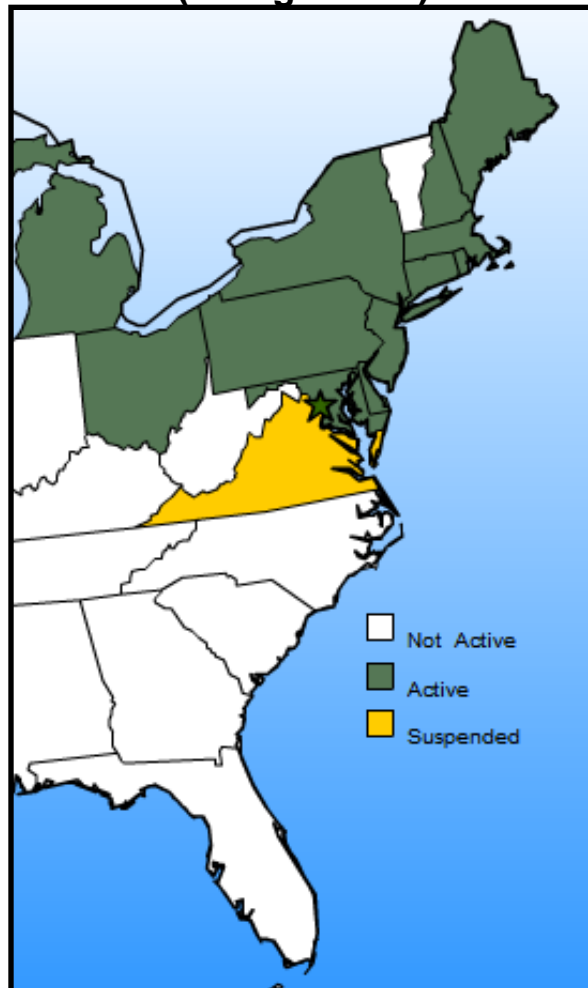
- The IRP Process begins with development of a long-term annual peak and energy requirements forecast.
- Next, existing and approved supply- side and demand-side resources are compared with expected load and reserve requirements.
- This yields the Company's expected future capacity needs to maintain reliable service over the Planning Period.
- Then, the Company evaluates the economics associated with various supply- side and demand-side alternatives that complement existing resources to meet capacity and energy requirements in conjunction with regulatory and legislative requirements.

# Virginia Electric Utility Regulation: East Coast Policy Landscape

## RPS Policies



## Electricity Restructuring (Deregulation)



## Residential Rates

State	Cents/Kwh
Connecticut	18.60
New York	18.42
New Hampshire	16.92
Vermont	16.49
New Jersey	16.30
Maine	15.42
Massachusetts	15.24
Delaware	14.76
Maryland	14.21
Pennsylvania	13.60
Rhode Island	13.47
Florida	11.70
South Carolina	11.49
Georgia	11.38
<b>Virginia</b>	<b>10.87</b>
North Carolina	10.57
West Virginia	9.81

Source: U.S. Energy Information Administration  
May 2011

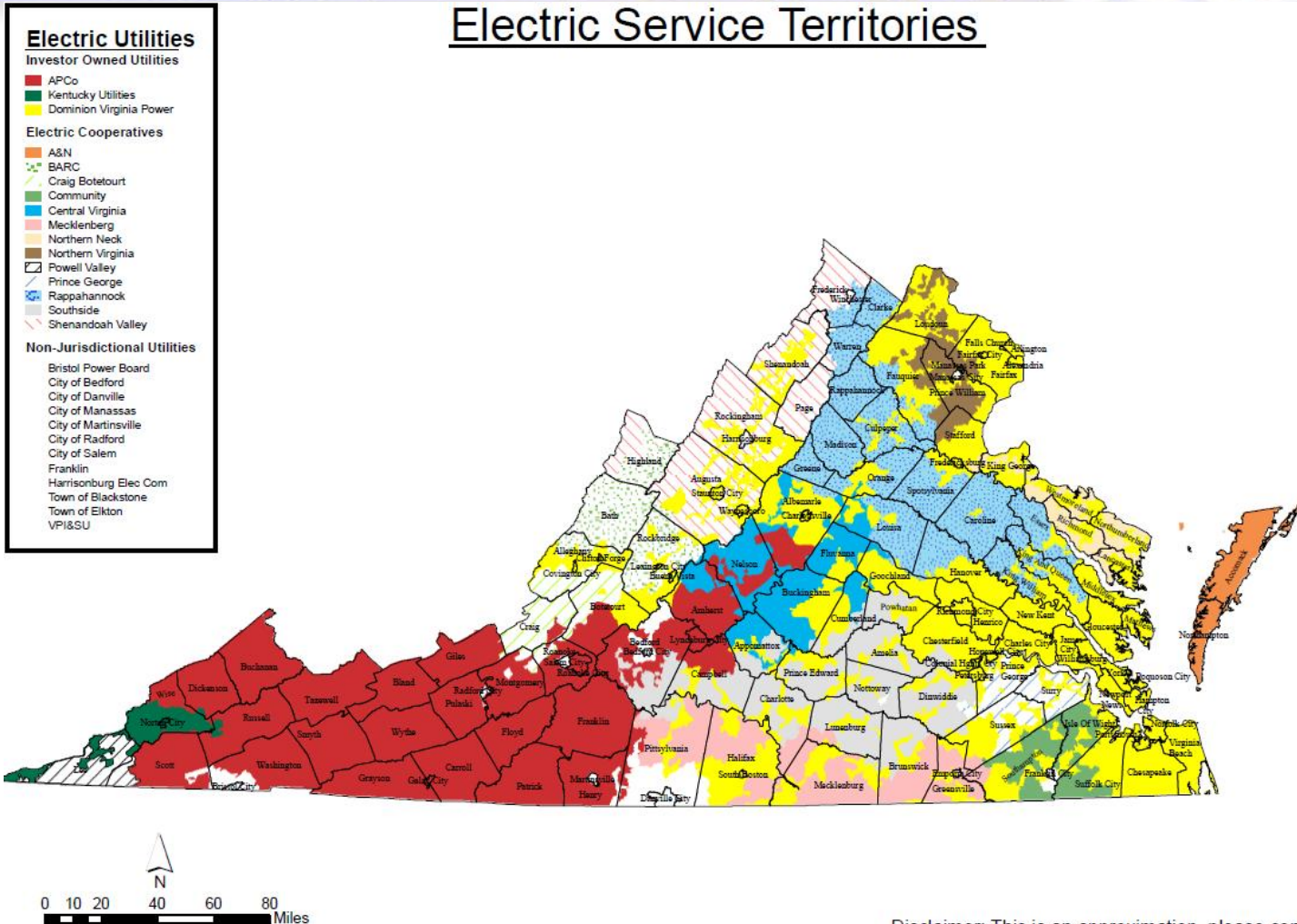
# Summary of Virginia's Regulatory Structure

- Maintain stable and low rates.
- Decrease reliance on out-of-state imports.
- Focus on infrastructure build.
- Promote Energy Efficiency and Peak-Shaving.
- Conduct Integrated Resources Planning.
- Support Voluntary Renewable Portfolio Standard.

# APPENDIX



# Electric Companies Regulated by the SCC



Source: State Corporation Commission, 2010  
Created by: Division of Energy Regulation, 2010

Disclaimer: This is an approximation, please contact the Division of Energy Regulation for an official electric territory map.